Abstract

We revisit questions concerning the implications of voting rights for the efficiency of corporate control contests. Our basic set-up and the nature of the questions continue the work of Grossman and Hart (1988), Harris and Raviv (1988) and Blair, Golbe, and Gerard (1989).
We focus on the effect on efficiency of allowing votes to be traded separately of shares in three cases. In addition to outright offers for shares (and for votes when such offers are permitted) we allow the parties competing for control rights to make either offers contingent on winning or quantity restricted offers. Our main conclusion characterizes when allowing vote buying is harmful, and such situations exist for efficiency in all the cases. Allowing quantity restricted offers is also harmful to efficiency (whether or not vote buying is allowed). However, allowing conditional offers is not in itself detrimental to efficiency. These sharp observations are no longer true if we look at the payoff to the initial shareholders alone (ignoring of the benefits of control). In particular, there are parameters for which allowing separate vote trading increases shareholder profits, despite being harmful for efficiency.

The paper also makes a methodological contribution to the analysis of takeover games with a continuum of shareholders. It suggests a way of dealing with the mixed strategies that are crucial for the analysis, develops arguments that facilitate characterization results without fully constructing the set of equilibria and deals fully with the question of existence.